UNITED STATES OF AMERICA
Before The
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Experimental Rate and Service Changes   )   Docket No. MC2002-2
To Implement Negotiated Service Agreement)
With Capital One Services, Inc.   )

ANSWERS OF OFFICE OF CONSUMER ADVOCATE
WITNESS JAMES F. CALLOW TO INTERROGATORIES OF
CAPITAL ONE SERVICES, INC. (COS/OCA-T2-1-4)
(January 6, 2003)

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The Office of Consumer Advocate hereby submits the answers of James F. Callow

to interrogatories COS/OCA-T2-1-4, dated December 26, 2002. Each interrogatory is

stated verbatim and is followed by the response.

Respectfully submitted,

_____
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ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES COS/OCA-T2-1-4

COS/OCA-T2-1

Please refer to Section III of your testimony, which discusses your proposed experimental automated address correction service.

    (a) Please confirm that to be eligible for your proposed experimental automated address correction service, mailers would be required to allow the Postal Service to destroy, rather than physically return, its undeliverable-as-addressed First-Class mailpieces. If not confirmed, please explain fully.

    (b) Please describe in detail the minimum annual volume requirements that you propose for the experimental classification.

RESPONSE TO COS/OCA-T2-1

    (a) Not Confirmed. The proposed changes to the DMCS for Experimental Automated Address Correction Service states "disposal by the Postal Service." *See* OCA-T2 Attachment A, DMCS § 610.1. It is correct, however, that undeliverable-as-addressed (UAA) mailpieces that cannot be forwarded will not be physically returned.

    (b) There is no explicit minimum annual volume requirement. However, small-volume mailers are likely to be discouraged by the proposed changes to the DMCS for Experimental Automated Address Correction Service that require mailers to use NCOA or the *FASTforward* system. *See* OCA-T2 Attachment A, DMCS § 610.43.

COS/OCA-T2-2

Assume that a mailer with ten million annual returned First-Class Mail letters is willing to participate in the proposed experimental automated address correction service, but only if it receives a discount of at least five cents per return. Please further assume that participating in this service will reduce Postal Service costs by 17 cents per return.

(a) Please confirm that this mailer would not participate in your proposed experimental automated address correction service. If not confirmed, please explain fully.

(b) Please confirm that providing a five cent per return discount would incent this mailer to participate in the service and that participating in the service would increase this mailer's contribution to the Postal Service by $1.2 million ((17 cents per piece – 5 cents per piece) x ten million pieces).

(c) Have you surveyed any First-Class mailers to assess whether they would participate in the experimental automated address correction service (as proposed)? If so, please provide a summary of your findings.

RESPONSE TO COS/OCA-T2-2

(a) Unable to confirm. The interrogatory does not indicate whether discounts to be provided to a mailer under the proposed Experimental Volume-Based Declining Block Rates would be sufficient to induce the mailer to participate in the Experimental Automated Address Correction Service. There are no discounts for mailers that participate in the Experimental Automated Address Correction Service. Discounts are available only for interested mailers under the Experimental Volume-Based Declining Block Rate classification.

(b) Confirmed.

(c) No.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
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COS/OCA-T2-3

Please refer to pages 17-23 of your testimony where you discuss your proposed alternative discount structure. On page 17, lines 12-14, the caption notes that your alternative discount structure offers "incentives to provide additional volumes of mail." Assume that the volume threshold for a mailer is 1,225,000,000.

    (a) Please provide the discount that this mailer would receive if it mailed 1,409,000,000 pieces of First-Class Mail.

    (b) Please provide the discount that this mailer would receive if it increased its First-Class Mail to 1,410,000,000 pieces.

    (c) Based on the discounts calculated in (a) and (b) above, what is the incentive per piece that is being offered to this mailer to increase its First-Class Mail volume above 1,409,000,000 pieces?

    (d) Using Witness Elliott's Method 1 for calculating After-Rates Volume, as shown in Exhibit 6 of COS-T-2, what increase in this mailer's First-Class Mail would result from the incentive calculated in section (c) above?

RESPONSE TO COS/OCA-T2-3

    (a) $6,802,500. (See OCA-T-2 at 20 for derivation of the "volume limit.")

Amount Mailed =	**1,409,000,000**					
Volume Limit =	183,750,000					
Discount Threshold =	1,225,000,000					
[1]		[2]	[3]	[4]	[5]	[6]	[7]
					Discount		
Incremental Volume Blocks		% Change	Difference	Volume	Discount	Revenue
1,225,000,001	1,274,000,000	4.0%	48,999,999	48,750,003	$0.030	$1,462,500
1,274,000,001	1,323,000,000	8.0%	48,999,999	48,999,999	$0.035	$1,715,000
1,323,000,001	1,372,000,000	12.0%	48,999,999	48,999,999	$0.040	$1,960,000
1,372,000,001	1,409,000,000	18.0%	36,999,999	36,999,999	$0.045	$1,665,000
TOTAL				183,750,000		**$6,802,500**

(b) $6,817,500. (See OCA-T-2 at 20 for derivation of the "volume limit.")

	Amount Mailed =	**1,410,000,000**					
	Volume Limit =	183,750,000					
Discount Threshold =		1,225,000,000					
[1]		[2]	[3]	[4]	[5]	[6]	[7]
					Discount		
Incremental Volume Blocks			% Change	Difference	Volume	Discount	Revenue
1,225,000,001		1,274,000,000	4.0%	48,999,999	47,750,003	$0.030	$1,432,500
1,274,000,001		1,323,000,000	8.0%	48,999,999	48,999,999	$0.035	$1,715,000
1,323,000,001		1,372,000,000	12.0%	48,999,999	48,999,999	$0.040	$1,960,000
1,372,000,001		1,410,000,000	18.0%	37,999,999	37,999,999	$0.045	$1,710,000
TOTAL					183,750,000		**$6,817,500**

(c) $0.015 [($6,817,500 - $6,802,500) / (1.410 – 1.409 billion)]. See response to

parts (a) and (b) above.

(d) 5,156,649. See below.

Response to COS/OCA-T2-3(d), based upon Exhibit 6: SLS Consulting Projection of First-Class Mail Volume - Method 1

FY 2003 Capital One Before-Rates Projection

First-Class Mail Solicitation Volume	769,000,000	[1]
First-Class Mail Customer Mail Volume	640,000,000	[2]
Total First-Class Mail	1,409,000,000	[3]

SLS After-Rates Projection Using USPS Price Elasticities - Method 1

Price Elasticity - Worshared First-Class Letters	-0.071	[4]
Marginal Price Discount from NSA (Percent)	-5.2%	[5]
First-Class Mail Volume Increase (Percent)	0.4%	[6]
First-Class Mail Solicitation Volume Increase (Pieces)	2,814,381	[7]
First-Class Mail Customer Mail Volume Increase (Pieces)	2,342,268	[8]
Total First-Class Mail Volume Increase (Pieces)	**5,156,649**	[9]
After-Rates First-Class Mail Solicitation Volume (Pieces)	771,814,381	[10]
After-Rates First-Class Mail Customer Mail Volume (Pieces)	642,342,268	[11]
Total After-Rates First-Class Mail Volume (Pieces)	1,414,156,649	[12]

[1] Assumption, COS/OCA-T2(c)
[2] Capital One testimony
[3] = [1] + [2]
[4] R2001-1 USPS-T-7 at 51
[5] = - $0.015 / $0.291, where $0.015 is the discount per piece calculated in part (c) above and $0.291 is the Capital One per-piece average First-Class Mail postage
[6] = [4] * [5]
[7] = [1] * [6]
[8] = [2] * [6]
[9] = [7] + [8]
[10] = [1] + [7]
[11] = [2] + [8]
[12] = [10] + [11]

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES COS/OCA-T2-1-4

COS/OCA-T2-4

If Capital One applied to participate in your proposed volume discount classification in
FY 2003, what would its volume threshold be? If you can't provide a specific figure,
what process would be used to determine Capital One's volume threshold for FY 2003?

RESPONSE TO COS/OCA-T2-4

The proposed changes to the DMCS for Experimental Volume-Based Declining

Block Rates directs that the "Discount Threshold" be "established by the Postal Service

using only its own or publicly available data." *See* OCA-T2 Attachment B, DMCS §

620.61.

DECLARATION

I, James F. Callow, declare under penalty of perjury that the answers to
interrogatories COS/OCA-T2-1-4 of Capital One Services, Inc., are true and correct, to
the best of my knowledge, information and belief.

Executed _____

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